25 June 1968

MEMORANDUM FOR THE RECORD

SUBJECT: H.R. 17682 - Civil Service Retirement Act Amendments

1. H.R. 17682 was ordered reported out by the Committee on Post Office and Civil Service on 19 June 1968. The bill is an outgrowth of the Administration proposal, H.R. 10912, to improve the financing and funding of the Civil Service retirement system. H.R. 17682 also liberalizes benefits under the Civil Service retirement system.

2. Proposed retirement benefits:

    a. permits overtime pay to be included in basic pay in computing "average pay" (exemption of the Agency from the provisions of the Federal Employees Pay Act of 1945 could reduce the potential annuity of certain Agency employees if crediting of overtime towards "average pay" is authorized);

    b. reduces the number of consecutive years for establishing "average pay" from five to three;

    c. permits unused sick leave to be added as creditable service in computing an annuity; and

    d. adds a 1 percent bonus to each future cost-of-living increase.

3. Financing and Funding proposals:

    a. increases the employee's and the employing agency's contribution to 7 percent in 1969;

    b. authorizes the Civil Service Commission under certain conditions to adjust contribution rates subject to congressional veto;

c. requires partial funding of existing unfunded liability and full funding in future for new or liberalized benefits, extension of coverage, or general increases in pay structure; and

d. requires employing agency to contribute 25 percent of the value of sick leave credit to the Fund.

4. Implications. Prospects of passage of H.R. 17682 by both Houses this Congress are dim. However, the likelihood that all or some of its provisions will be approved in the future raises inevitable questions, such as:

a. the ramifications of different contribution rates for employees within the Agency (depending upon the retirement system which covers them);

b. the continued viability of the CIA Retirement Act in the face of the probably more rapid liberalization of benefits under the Civil Service system.

In connection with the latter point, the Civil Service system has been liberalized since the passage of the CIA Retirement Act and we are struggling to attain comparability. In 1964 the advantage of retirement under the CIA system in most instances was a 3.75 percent larger annuity and eligibility to retire at an earlier age without reduction in annuity. The 3.75 percent larger annuity results from the fact that under the CIA system the annuity for the ten years of service is computed at 2 percent of average salary compared to 1.5 percent for the first five years and 1.75 percent for the second five years of service under the Civil Service system. This 3.75 percent annuity advantage may be reduced to as little as 2.45 or less if the sick leave credit provision in H.R. 17682 is eventually enacted for Civil Service but not for the CIA retirement system (the 1324 hours of unused sick leave to the credit of the last 29 retirees under the CIA system could generate a 1.3 percent increase in annuity--with an inducement to preserve sick leave, this figure most likely would be higher). Clearly, the 1964 advantage for retiring under the CIA rather than the Civil Service system has been eroded and can be further diminished or completely overtaken by the enactment of other benefits proposed by H.R. 17682 such as using three rather than five consecutive years of high salary for computing an annuity and adding a 1 percent bonus to the cost-of-living increases generated under the more liberal

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Civil Service formula. Since 1964, the age requirements for retirement with full annuity under Civil Service have been reduced. In the case of involuntary separations there is no reduction in annuity for retirement at age 55 with 20 years of service. The average retiree under the CIA system is now 55 years of age and has 24 years of service.

5. **Prospects.** Certainly, the passage of Section 8 of H. R. 13705 to liberalize the cost-of-living formula is a step in the right direction for the CIA retirement system in keeping faith with the concept that those covered by the system receive benefits at least equal to those provided under the Civil Service system. However, even if Section 8 is approved by the 90th Congress, we still will be faced with the problem of obtaining approval in the 91st Congress of the remaining sections in H. R. 13705 updating the CIA Retirement Act to benefits enacted after 1964 for the Civil Service retirement system. In addition, there will be continuing pressure to keep pace with any new Civil Service benefits which are enacted.

6. **Alternatives.**

a. In the past the Civil Service Commission and the Bureau of the Budget have recommended that all Federal staff retirement systems be merged into one system primarily to assure compatibility and uniformity of benefits. The possibility of actual implementation of this concept in the near future could profitably be evaluated at this time.

b. The jurisdictional problems between our legislative oversight Committee and the Post Office and Civil Service Committee could be examined once again looking towards the possibility of legislative consideration of the needs of the CIA Retirement Act by the latter Committee. The advantages of such an arrangement must, of course, be weighed against the possible disadvantage of granting leverage for assumption of partial jurisdiction over the Agency and its activities by the Post Office and Civil Service Committee and possibly other committees, such as Government Operations.

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c. The entire problem may be reviewed with our legislative oversight Committees and Appropriations Committees looking towards a general enactment permitting the Director to adopt provisions of the Civil Service retirement system for the benefit of the CIA Retirement Act.

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